Study on New GST Era and its Impact on Small Businesses Entrepreneurs

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Abstract

According to the IBEF, India is a global production plant, and SMEs account for about 90% of its industrial facilities. The Indian government's "Make in India" campaign will promote the launch of GST. This paper based on the survey based on the effect of the implementation of GST on the SMEs in which the problems associated with the GST will be primaries and it was concluded that a lot of people were still unable to understand the working of GST and they have to make understand their customer also, most of the youngster believe that with time all the problems were automatically solved and the fair face of GST will always profitable to everyone.

Keywords: GST, Tax and services, SMEs, CGST, IGST, VAT and Service Charges.

Introduction

After independence, the largest indirect tax reform in India has begun with goods and services tax (GST). After much deliberation, the GST bill was passed at Rajya Sabha and this winter session will be discussed at the state assembly. Having the ball for integrated national tax reforms, the market is full of new expectations among industry leaders and government officials(1). According to the IBEF, India is a global production plant, and SMEs account for about 90% of its industrial facilities. The Indian government's "Make In India" campaign will promote the launch of GST. Consumption tax for current pre-packaged retail products is not charged at the factory's transaction price, but at a percentage of the package's maximum selling price (MRP). This increases MRP and increases consumer costs. Under GST, the manufacturer pays taxes while purchasing raw materials for the product. This amount can be credited to the next reseller until the product reaches the end consumer(2, 3).

This will greatly boost the tax burden. This sets the momentum at which two accounts pass. During the winter semester, submit the Central GST (CGST) and Integrated GST (IGST) bills along with the main GST bill
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Through various major assemblies. According to industry and government experts, the GST expiration date of April 1, 2017 is likely to have expired. Corporations, especially SMEs, are collected in a variety of industries. Extended indirect taxes GST replaces a variety of taxes such as excise, VAT and service charges with a single tax structure(1).

With frequent skepticism, some start-ups and small businesses should be aware of the negative impact they can see in photos with the launch of GST. According to various government agencies, the GST system will help most SMEs.

As industry experts have stated, it will be most effective to get rid of several central and state tax chain effects and start your business. But market optimism aside is not convinced of how the new detergent will affect your business and change your bottom line. In order to understand all the impacts of tax reform, it is important to grasp the complex aspects of GST and related tax reforms in detail(4).

**GST: Salient Features**

GST is a destination-based excise tax imposed at various stages in the production and distribution of goods and services. State and local taxes, entertainment taxes, consumption taxes, surcharges, patents and many other taxes are combined. Tax applies to transaction prices, including packaging, fees and other costs incurred during the packaging. You can pay full tax deductions from input and capital goods at time of purchase, which can be subsequently amortized for GST output liability(2, 5).

An important feature of GST is that products and services are equalized and are taxed at a fixed rate until customers access it within the supply chain. Therefore, tax reforms give equal rights to large and small businesses and taxpayers(6).

Another important feature of India's GST rollout is that it is dual-based. In other words, both central and multiple government agencies will release GST separately. The central government will charge CGST and the state will charge SGST respectively. However, the tax, tax and taxation standards are the same. This is necessary in view of the federal structure of the government if governments are free to manage their own taxes at two levels. In India, GST is imposed on goods and services income(7).

Another important feature of GST that needs to be mentioned is the elimination of the cascading effects of various state and central taxes. Government taxes included in GST include VAT, entertainment tax, income tax and advanced taxes, VAT and gambling taxes.

Various central taxes that will be subsumed are:

- Central Excise Duty,
- Additional Excise Duty,
- Service tax,
- Additional Custom Duty,
- Special Additional Duty and
- Central Sales tax.
Small and Medium Enterprises (SMEs)
Small and Medium Enterprises (SMEs) are the primary growth drivers of the Indian economy with more than three million SMEs operating in India, contributing to almost 50 percent of the industrial output and 42 percent of India’s total exports. A leading employment-generating sector, SMEs have provided balanced development across sectors.

GST will enhance the taxpayer base by bringing more SMEs under its ambit, and will definitely pass on the burden of compliance and associated costs to them.

However, eventually GST will turn these SMEs more competitive, and level the playing field between large enterprises and them. Further, these Indian SMEs would be able to compete with foreign competitors from cheap cost centers such as China, Philippines, and Bangladesh.

Other than these, here are some more ways in which the soon-to-be-implemented tax regime is likely to affect businesses, especially startups and SMES.

1. Positive Impact of GST
   Ease of starting business
   Today, companies in other countries require VAT registration. Different tax rules in different states will cause complications and companies will receive higher procedural rewards. GST provides centralized registrations that make it easier to start a business and give the benefits of adding the resulting expansion to a small business.

   Market expansion
   SMEs limit their customers within states as they will bear the ultimate burden of tax on interstate sales, which reduces their customer base. With implementation of GST, this will be nullified as tax credit will be transferred, irrespective of the location of the buyer and seller. This will allow startups, SMEs and MSMEs to expand their reach across borders.

   Reduction of tax burden on new businesses
   As per the current tax structure, businesses with an annual turnover of over Rs 5 lakh need to pay a VAT registration fee. The basic exemption limit under GST is Rs 20 lakh and Rs 10 lakh for special states, which will bring relief to a large number of small dealers and traders.

   Elimination of distinction between goods and services
   GST ensures that there is no ambiguity about what constitutes goods and services. This will simplify various legal proceedings related to packaged products. As a result, there will no longer be a distinction between the material and the service component, which will greatly reduce tax evasion.

   Improved logistics and faster delivery of services:
   Under the GST bill, no entry tax will be charged for goods manufactured or sold in any part of India. As a result, delivery of goods at interstate points and toll check posts will be expedited. According to a CRISIL estimate, the logistics cost for manufacturers of bulk goods will get
reduced significantly by about 20 percent. This is expected to boost e-commerce across the nation(2).

**Removal of multiple taxation**

GST will ease transfer of goods across states and reduce the cost of doing business, as the reform will cut down multiple taxes imposed by state and central government

**2. Negative Impact of GST**

**Registration woes**

Under the GST law, every supplier of goods or services is required to be registered under the GST Act in the state or union territory from where they operate, if their turnover in a financial year is Rs. 20 lakh or more (for special category states such as those from the northeast, this threshold is Rs 10 lakh). Thus, one would think that there is no need for smaller players to register under GST(12).

However, if small suppliers (of goods or services, or both) make an inter-state supply, they must register (their turnover is immaterial). And an inter-state supply may even denote a supply from Gurgaon to Delhi, the commute between which is only a few hours.

**Concept of ‘Casual Taxable Person’**

This means that someone who occasionally undertakes transactions involving supply of goods or services or both, in the course or furtherance of business, whether as a principal, agent, or in any other capacity, in a state or union territory where he has no fixed place of business, also needs to register. Other than registering under the GST Act, the casual taxable person also has to pay tax at the time of applying for registration on an estimated basis.

Since he or she doesn’t have a place of business in that state, there would be no output tax in that state, thus the state GST cannot be adjusted as an input tax credit. To that extent, the GST is a sunk cost for such individuals(13).

**Composition levy mechanism is very restrictive**

It is an alternative method of levy of tax designed for small taxpayers whose turnover is up to Rs 50 lakh. Those who opt for this mechanism are not allowed to take input tax credit, or collect any tax from the recipient. To such an extent, it seems fair.

After all, the rate of GST under the composition levy is low. It is 2.5 percent of the turnover in case of a manufacturer or 1 percent for dealers. But there are restrictions attached(14). For instance, once again no inter-state supply is permissible. Or for that matter, a person opting for a composition scheme, cannot sell via an e-marketplace (GST requires e-marketplaces to collect tax at source).

**The draconian reverse charge mechanism**

If a small businessman (who as per the threshold limits is not required to obtain GST registration) supplies goods or services to a customer who is registered under the GST Act, the customer (buyer) is liable to pay the GST on such a purchase. Not only this, but the buyer also must self-invoice. In other words, the buyer must issue an invoice
for the purchase made by him from the unregistered seller (15). This invoice is to be uploaded onto the GST system.

Technological challenge
Not all SMEs have the technical expertise to deal with online systems. Thus, most of them will need intermediaries to take them through the registration process. This will add to their registration cost.

Working capital blockage
Since GST requires businesses to maintain funds in the form of electronic credit ledger with the tax department, it may result in liquidity crunch. Also, the harsh ‘input tax credit’ mechanism will also lead to working capital blockage.

Harsh mechanism of ‘Input Tax Credit’
Input Tax Credit is available to a buyer only if the supplier has paid tax inside a given window. This is one problem which a reasonable percentage of small businesses will face in their life-cycle. Most (if not all), will have no bad ‘intent’ of evasion or not paying. Sometimes, the choice of ‘paying salary to the workers on time’ and ‘paying a penalty to the government for delayed payment’ is a conscious call which small businesses invariably must take (12).

Compliance rating
Another interesting provision is the ‘Compliance Rating’, a system which assigns ratings to businesses based on their discipline, so you will know whether your supplier has a ‘good or poor’ rating before buying from them. Thus, businesses will try to avoid buying from people with ‘poor’ rating, which means that people will do everything they can to AVOID a poor rating. And the rating becomes ‘poor’ not just due to a delay in filing data, but also due to delays in payments (16).

Added compliances for exports
Hundreds of Startups / SMEs earn revenue by exporting their services mostly in the technology sector. Now, with GST they have to mandatorily register and file returns. Yes, there is an option to claim refunds of input taxes (17).

Challenges for SMEs
A sizeable portion of SMEs are of the opinion that GST is not all good for the sector and their fears may not be totally vacuous. The tax neutrality that the SMEs enjoy may be one of the prominent benefits (1). However, reduction in duty threshold is one of the key concerns that have led them to be wary of the GST bill. Under the existing excise tax, no duty is paid by a manufacturer having a turnover of less than rupees 1.50 crores. But, post GST implementation; the exemption limit will get significantly lowered. During a speech at a news conference, Finance Minister, Arun Jaitley estimate said, the limit can be as low as rupees 25 lakh. As a result, a large number of SMEs and startups will be mandated to come under the tax net and will have to pay a large chunk of their earnings towards tax (18).

Furthermore, there are other flipsides to the proposed tax neutrality. GST regime won’t differentiate between luxury goods and normal goods; these will it hard for the
SMEs to compete against large enterprises. GST that is ultimately levied on supply will not be available for input credit. This will lead to an increase in the cost of the products for businesses that supply directly to end users (19).

Experimental Setup for Survey and Analysis
The experimental set up was done targeting four types of dealers (on the basis of their annual turnover). The data were analyzed on 25 dealers as the type 4 category were very rarely agree to answer the questionnaire and the result was interrelated on the basis of percentage and mean.

D1-Type 1 Dealers:
In this category we include the dealers which have annual income less than 20 lakh and do not fall in the GST.

D2-Type 2 Dealers:
In this category we include dealers which have annual income in between 25-75 lakh and opted GST composition scheme.

D3-Type 3 Dealers:
In this category we include dealers which have annual income in between 75 lakh-1.5 crore and do not opted GST composition scheme.

D4-Type 4 Dealers
In this category we include dealers which have annual income above 5 crore and has 8 digit HSN Code.

The 4 set of questionnaire were formed on the basis of satisfaction with GST Implementation,
2. on the basis of profit increase or decrease with GST Implementation,
3. on the basis of ease of sale and purchase with GST Implementation
4. and on the basis of Troubles encounter with them after implementation of GST

Results and Interpretation
1. Dealer Satisfaction with Implementation of GST.
It was found that all the 4 selected level of the dealers in the experimental setup were actually the hierarchical strata of retailing in the Small and Medium Enterprises, in which the D1 level dealers are very low level retailers who buy goods on daily basis and sell in small local are with minimum profit, as they had income less than 20 lakh per annum they did not fall in GST but some of them were registered under GST. Most of them were unaware of the GST as they were not in GST Cirtaria.

In level 2 dealers which have income 25-75 lakh per annum and opted GST composition scheme, were highly confused with the working process of the GST. The level 3 were retailer and wholesaler both and they hire someone to do the GST work and did not involve in the paper work. While level 4 were the typical wholeseller who brought goods from the manufacture and sell to distributer they were least affected by the GST as there process were remain same except the paper work increases which were their real headache.
After the survey analysis as given in Table 1 of the dealers satisfaction on the implementation of GST it was observe that below 20 lakh income dealers were not under the GST Slab so they were least affected with the GST implementation consequences.

<table>
<thead>
<tr>
<th>Table 1: Dealer Satisfaction in % on Implementation of GST.</th>
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<tbody>
<tr>
<td><strong>Satisfaction Responses in %</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>Below 20 lakh</strong></td>
</tr>
<tr>
<td><strong>20-75 lakh</strong></td>
</tr>
<tr>
<td><strong>75 lakh -1.5 crore</strong></td>
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<tr>
<td><strong>5 crore and above</strong></td>
</tr>
</tbody>
</table>

In D2 type of Dealers who were opt the GST Compilation scheme were found satisfied with GST implementation. 50% dealers were satisfied while 30% were unsatisfied beside these 15% cannot say because there were very short span of GST implementation, while 5% were ambiguous sate they cannot understand GST very much and cannot predicts its consequences (Figure 1).

In Type 3 Dealers which have annual income above 5 crore and has 8 digit HSN Code were found satisfied with GST implementation. 40% dealers were satisfied while 10% were unsatisfied beside these 30% cannot say because there were very short span of GST implementation, while 20% were ambiguous sate they cannot understand GST very much and cannot predicts its consequences.
In Type 3 Dealers who were not opted the GST Compilation scheme were found highly satisfied with GST implementation. 65% dealers were satisfied while 12% were unsatisfied beside these 8% cannot say because there were very short span of GST implementation, while 15% were ambiguous state they cannot understand GST very much and cannot predicts its consequences. As in this level the trading is whole sale and there is no effect of implementation of GST (Figure 1).

2. Profit Increase or Decrease on Implementation of GST

With implementation of GST the extra taxes of the State Govt. and Central Govt. was removed and now a dealer can purchase any goods across the country and sell across the country.

Which was found beneficial for them, so this section was established on this basis that is there increase or decrease in their profit with all India as a open market.

<table>
<thead>
<tr>
<th>Table 2: Profit Increase or Decrease in % on Implementation of GST.</th>
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<tbody>
<tr>
<td>Profit increase decrease in %</td>
</tr>
<tr>
<td>Increase</td>
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<tr>
<td>----------</td>
</tr>
<tr>
<td>D1</td>
</tr>
<tr>
<td>D2</td>
</tr>
<tr>
<td>D3</td>
</tr>
<tr>
<td>D4</td>
</tr>
</tbody>
</table>

Figure 2: Dealers response in Ambiguous state on Profit Increase or Decrease in % on Implementation of GST.

In this case most of the dealers are not in state to count their profit or loss as there were very low time span with implementation of the GST.
They are still encountered with the customer satisfaction and clearance about why and how GST will implicate on the goods. In this case D1 (78%), D2 (88%) and D3 (86%) were opted cannot say option for the time being while 91% of D4 Dealers were agree that there profit and loss were same (Figure 2).

Sale Purchase of Goods on Implementation of GST

With implementation of GST the extra taxes and now a dealer can purchase any goods across the country and sell across the country, which was found beneficial for them, so this section was established on this basis that is there increase or decrease in their sell and purchase with all India as an open market.

Table 3: Sale purchase of goods in % on Implementation of GST.

<table>
<thead>
<tr>
<th>Sale purchase of goods in %</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Sale</td>
<td>Purchase</td>
<td>Cannot say</td>
<td>Similar</td>
</tr>
<tr>
<td>D1</td>
<td>4</td>
<td>4</td>
<td>21</td>
<td>71</td>
</tr>
<tr>
<td>D2</td>
<td>2</td>
<td>4</td>
<td>13</td>
<td>81</td>
</tr>
<tr>
<td>D3</td>
<td>3</td>
<td>8</td>
<td>21</td>
<td>68</td>
</tr>
<tr>
<td>D4</td>
<td>12</td>
<td>25</td>
<td>15</td>
<td>48</td>
</tr>
</tbody>
</table>

Figure 3: Dealer response on Sale purchase of goods in % on Implementation of GST.

In this case the D1 (71%), D2 (81%), and D3 (68%) were opted similar sell and purchase option as they were still ambiguous about the GST.

While D4 (25) level were benefitted with this as their purchase of the goods from across the India manufacturer will increase their variety of goods while $8% were still found similar trends (Figure 3).
3. Troubles associated with Dealer on Implementation of GST.

The GST will implemented a lot of paper work is there and with a registration process to validate the organization run by small and medium enterprises. The local dealer will face many problems as a huge paper work is there, registration for GSTIN number without which they cannot validate their bill. And yes of course they were still cannot understand the whole GST. The Big problem is also with the customer satisfaction a there were a range of goods lies in different category in GST, which may confuse the customer.

And also the retailer has to deal with the bargain problems of the customers as they were not ready to understand the One Country One GST.

Here we summarize the Trouble associated with the GST in table 4 with concern to paper work, registration process, and unawareness of the process, customer satisfaction and bargaining tendency of the customer.

<table>
<thead>
<tr>
<th>Troubles associated with GST</th>
<th>D1</th>
<th>D2</th>
<th>D3</th>
<th>D4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper work</td>
<td>88</td>
<td>73</td>
<td>45</td>
<td>51</td>
</tr>
<tr>
<td>Registration</td>
<td>48</td>
<td>52</td>
<td>41</td>
<td>28</td>
</tr>
<tr>
<td>Unawareness of Clear Process</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>12</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>21</td>
<td>48</td>
<td>27</td>
<td>4</td>
</tr>
<tr>
<td>Bargaining</td>
<td>66</td>
<td>47</td>
<td>56</td>
<td>9</td>
</tr>
</tbody>
</table>

Figure 4: Troubles associated with Dealer (D1 Level) on Implementation of GST.

In this figure 4 the Problems associated with the D1 Level retails were plot which shows that 88% among 100 person has problem with the paper work while 48% has problem with registration, 35% were unaware about the whole process, 21% Has Trouble with
customer satisfaction and 66% has problem with customer bargaining process. In this figure 5 the Problems associated with the D2 Level retails were plot which shows that 73% among 100 person has problem with the paper work while 52% has problem with registration, 35% were unaware about the whole process, 48% Has Trouble with customer satisfaction and 47% has problem with customer bargaining process.

**Figure 5:** Troubles associated with Dealer (D2 Level) on Implementation of GST.

In this figure 6 the Problems associated with the D3 Level retails were plot which shows that 45% among 100 person has problem with the paper work while 41% has problem with registration, 35% were unaware about the whole process, 27% Has Trouble with customer satisfaction and 56% has problem with customer bargaining process.

**Figure 6:** Troubles associated with Dealer (D3 Level) on Implementation of GST.
In this figure 7 the Problems associated with the D4 Level retails were plot which shows that 51% among 100 person has problem with the paper work while 28% has problem with registration, 12% were unaware about the whole process, 4% Has Trouble with customer satisfaction and 9% has problem with customer bargaining process.

**Conclusion**

Unarguably, GST rollout will open up a can of worms and the impact on SMEs across various industries will vary greatly. It is quite natural for a pervasive, country-wide tax reform, as GST is, to have a mixed opinion. Furthermore, the revolutionary tax regime will have acceptance that will vary from state to state.

Overall, the new tax proposals under GST will have a mixed verdict. In essence, the GST’s effect on the entire Indian economy will have to be scrutinized in totality to reach a widely accepted conclusion.

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